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The Spotlight is on Farm Income

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The SPOTLIGHT *is on* FARM INCOME

What Happened to Farm Profits Last Year, Why Some Folks Made More Than Others

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DO YOU KNOW why your 1945 farm income was either higher or lower than in 1944?

Naturally the particular conditions surrounding your farm business are different from any others. No two farm businesses are exactly the same. But chances are that you can get behind what happened to your income last year by seeing what happened to the incomes of 617 farmers who kept detailed records in cooperation with Iowa State College.

These record keepers operate above-average farms in both acreage and amount of business. Nevertheless, their records do indicate the year-to-year trend in farm profits and what makes the difference between successful and unsuccessful farm operations.

Higher Net Profits

How did these record keepers come out last year? The net farm income from their 617 farms, which averaged 253 acres in size, increased from an average of $6,503 in 1944 to $6,658 in 1945. This is a climb of $155 per farm, a small increase.

Why did this happen? To find out, let's take a closer look at what actually took place on these farms in the two years, 1944 and 1945.

Let's start with crops. Here we find that crop income was down $3.48 per crop acre. A glance at table 1 tells us that this drop was largely due to a poorer corn crop. Meanwhile, higher oat yields helped take some of the sting out of the poorer corn crop.

Some of farmers' costs went up, too. Cash operating expenses and machinery and equipment costs were slightly higher than in 1944 on these farms.

We have examined two things which are important in determining farm profits. Both would lead us to expect that these record keepers should have had a drop in net farm income last year.

Looking at livestock we find these farmers got a 13 cent higher return from each $1.00 of feed fed last year. About 86 percent of the 1945 cash income of these account-keeping farmers came from livestock sales. The return on feed fed is a very important cause in determining profit.

Feed returns were up last year mainly because farmers got higher prices for their hogs and cattle. The average sale price of hogs on these farms last year was up $1.05 per hundred pounds from the year before; the average price received for beef cattle increased $1.13. And other livestock products were not any lower. All livestock products sold at ceilings, or very near, throughout the year. We didn't have the marketing troubles that we had in the first half of 1944. With producers getting higher prices for livestock and feed prices remaining at ceilings, it meant more cash from livestock.

Less Labor Used

On the cost side of the books, we find that these farmers got the job done last year with less labor. In fact, last year the fewest months of operator, family and hired labor were used per farm in the 12 years that farm business association records have been kept in cooperation with Iowa State College.

Thus far, we have been talking

about what has happened on the average of the record-keeping farms in 1945 as compared to 1944.

Let's turn the spotlight next on those farmers in the group who operated 240-acre farms. Perhaps we can find some of the answers to why incomes vary greatly between farms. Net farm income of those farmers operating 240-acre farms averaged $6,692 last year. This figure includes both the landlord's and operator's net income on rented farms.

As table 2 shows, the top 57 of these farmers enjoyed a net income three times as large as the bottom 57 farmers. Remember that these men operated farms of the same size located in the same areas and with similar markets and weather conditions.

What did the high profit farmers do to earn so much more money? You will notice that the high profit group used only one more month of labor. Their power and equipment cost per acre was only 41 cents higher. That's not enough difference to explain a spread of almost $7,000 between the high profit and low profit farms. Evidently we must look further.

When we do, we find three main things causing the difference in profits last year. They are: How good a job the farmer did in converting feed into profits as reflected in both the type of livestock enterprise and how well it was handled; the productivity and the use he made of his land; and the amount of business he handled.

TABLE 1
PROFITS WERE UP SLIGHTLY LAST YEAR
Analysis of Iowa Farm Business Association Records

	1944	1945
No. of farms	677	617
Net farm income (operator and landlord on rented farm)	$6,503	$6,658
Acres in farms	255	253
Months of labor	23	21
Gross value of crops per crop acre	$44	$40
Corn yield per acre	60 bu.	51 bu.
Oats yield per acre	35 bu.	49 bu.
Returns per $1.00 feed fed	$1.34	$1.47
Power and equipment cost per acre	$8.96	$9.68
Cash operating expense per acre	$12.27	$12.73

TABLE 2
WHY FARM PROFITS VARY
A Comparison Between High and Low Profit 240-Acre Iowa Farm Business Association Farms for 1945.

	Av. of 169 farms	High 57 farms	Low 57 farms
Net farm income	$ 6,692	$10,343	$ 3,420
Months of man labor	21	22	21
Gross value of crops per crop acre	$ 40	$ 45	$ 37
Corn yield per acre	51 bu.	57 bu.	47 bu.
Net livestock increase	$13,435	$17,772	$11,274
Value of feed fed	$ 8,724	$10,744	$ 8,018
Margin over feed costs	$ 4,711	$ 7,028	$ 3,250
Returns per $1.00 feed fed	$ 1.54	$ 1.68	$ 1.31
Power and equipment, cost per crop acre	$ 9.75	$10.31	$ 9.90
Cash operating expense per acre	$13.09	$14.91	$13.17
Gross profits per man	$ 6,814	$ 8,866	$ 4,890

Better Livestock Men

The high profit group of farmers living on these 240-acre farms did a better job with their livestock. Their livestock earned them a return of $1.68 for each $1.00 of feed fed. The low profit group of farmers earned a return of but $1.31 for each $1.00 of feed fed.

Let's look at it another way. The efficient feeders fed $2,726 more feed per farm but produced $6,497 more livestock per farm.

If you are going to be a livestock producer and make money you must adjust your livestock program to the demand and do an efficient job of feeding. It pays, as these figures indicate.

Higher Crop Incomes

Some farmers made better use of their land and had higher crop yields. This is another explanation of why profits vary. You can tell how well you are using the land by studying your yields and the profitability of your cropping pattern. To do this, figure the total or gross value of your crops per crop acre.

On the high profit 240-acre farms we are studying, gross value of crops amounted to $8 more for each acre of crop land than on the low profit farms. Corn yields were 10 bushels per acre greater on the high profit farms. Considering the fact that all these farms are in similar areas, we must conclude that the difference in yield is due mainly to how well the fertility of the soil has been maintained and how good a job of crop husbandry has been carried out.

More Volume

The volume or amount of business on the high and low profit farms also differed greatly. Remember the high profit farms used only one more month of labor. They are the same size in acres. And their machine costs indicated about the same quantity of machinery. Yet, we find that the high profit farms had $8,866 gross profits per man. The low profit farms earned only $4,890 per man.

More production per man means lower expense per unit of production. That, in turn, means more profit. The high profit men using 22 months of labor, including operator and family and hired help, produced $17,772 worth of livestock and handled as many acres as their low profit neighbors. The latter with one month less of labor and the same farm acreage produced $6,498 less livestock.

The Moral

These records bear an important lesson for every farmer. Every Iowa farmer might well ask himself one question: Can I face further increase in my operating expense and still maintain my income at a high enough level to provide me and my family with the type of living that we desire?

Cash operating expenses have made a steady increase since the beginning of the war. They mean that every farm operator should be saying to himself: If my income should drop how could I reduce my expenses and still maintain or increase my efficiency?